

FACTORS THAT INFLUENCE ON DIVIDEND POLICY BETWEEN INDONESIA AND CHINA BANKING

Ari Kharisma¹

Windy Atmawardani Rachman²

*^{1,2}Majoring of Accounting Information System
Faculty of Economy, Gunadarma University
^{1,2}{ari_kharisma, windy}@staff.gunadarma.ac.id*

Abstract

This research aimed to investigate influence of stock price, growth, profitability and free cash flow on dividend policy. Dividend is one of the agency problem that occurs because there is separation between the shareholders (as principal) with company management (as agent). In agency theory, agency relationship arises when one or more persons (principal) employs another person (agent) to provide a service and then delegate a decision-making authority to the agency (Jensen and Meckling, 1976). Samples in this research are Indonesia and China banking companies listed on the IDX (Indonesia Stock Exchange) and Shanghai Stock Exchange (SSE) from the years 2007-2010. The data used are secondary data and methods of data collection in this research is purposive sampling. In this method, Indonesia and China banking companies issuing annual report the year 2007-2010 and has acquired 16 Indonesia banking companies and 17 China banking companies from 31 Indonesia banking companies and 21 China banking companies. Data analysis methods used in this study is multiple regression analysis. Indonesia banking company dividend policy was only affected by ROE. Meanwhile, in China banking company dividend policy was only affected by Stock Price, Growth, and Operating Profit Margin.

Keywords: *Stock Price, Growth, Profitability, Free Cash Flow, Dividend Payout Ratio.*

INTRODUCTION

Every investor always wants a rate of return obtained from a financial product at a certain period in the future. The purpose of investors to invest their funds in the stock market is to gain a reward or income from invested funds. The need to do a comparative analysis to select investment products which will be used to double the money they save for long-term goals. Appropriate investment if notice period financial goal is to invest in the stock market is in stock.

For investors who invest their funds in shares of a company aimed to generate revenues in the form of dividends or capital gains. Capital gain is income generated by selling the stock price is

higher than the purchase price or in other words, gains from rising stock prices.

In addition to a comparative analysis of financial products, within an international context astute investor must state which one is suitable for placing investment funds in order to get the maximum return is obtained. In every country there is a monetary policy that aims to regulate the growth and stability of the economy in order to compete with other countries. In the business concept foreign investors will put their money into the country in the developing stage. Because of Indonesia and China which are the category of emerging markets to have comparative analyze for dividend policy.

The company has many opportunities to invest when they arrive at high growth point. Many investment opportunities that require a large amount of funds and companies must seek external funding sources.

The cash dividend payment to shareholder depends on available cash position. Sutrisno (2001) argues that there are several factors that affect dividend policy, but only cash position which influences significantly. Position cash available for shareholders will be reflected in free cash flow which is owned by the company. Free cash flow describes the level of the company's financial flexibility.

In addition to free cash flow, profitability ratios can be used as a reference for measuring a company's dividend policy. Profitability is the ability of companies to make profit. Profit is what will be the basis of corporate dividends, whether dividends in cash or stock dividends. Some of the profitability ratio used is Profit Margin, Return on Asset, and Return on Equity. Suharli (2004) reveal the profit obtained from the difference between assets in (earnings and profits) and the treasures that came out (expenses and losses).

Based on the above explanations, it is important to analyze which factor would affect on dividend policy. The objective of study is to analyze the effect of stock price, growth, profitability and free cash flow on dividend policy in Indonesia and China banking period 2007-2010.

RESEARCH METHOD

The population in this study is the Indonesia's and China's bank companies have been listing on the Indonesia Stock Exchange (IDX) and Shanghai Stock Exchange (SSE) in the period of 2007 through 2010. There are 31 Indonesia's

bank companies listed on the Indonesia Stock Exchange (IDX) and 21 China's bank companies listed on the Shanghai Stock Exchange (SSE).

Sampling method used was purposive sampling method with criteria: (a) the Companies publish its financial data; and (b) the companies have stock price, growth, profitability and free cash flow.

In this study, we used dependent variable (dividend policy) measured by dividend payout ratio (DPR). DPR can be calculated by the formula (1).

$$DPR = \frac{\text{Dividend Per Share}}{\text{Net Income per Share}} \quad (1)$$

Independent variables used in the study as follows.

a) Stock Price

The amount of money that states exchange rate of a particular object unity (stock). Formulation: The share price of the monthly average of the daily share price at the closing price.

b) Growth

The growth rate a firm can be seen from the increased profitability of the company each year. The better the profitability of a company then the company's growth rate can be said to be increasing. The company's growth rate is calculated by the formula (2).

$$g = r \times ROE \quad (2)$$

Description:

g : growth rate

r : profit retention rate

ROE : return on equity

c) Operating Profit Margin

This ratio is used to measure the rate of return of the company's operating profit to net sales generated, meaning that every dollar that is contained in net sales operating profit contains a specific company, see formula (3).

$$OPM = \frac{\text{Operating Profits}}{\text{Sales}} \quad (3)$$

d) Net Profit Margin

Net profit margin to calculate the extent of the company's ability to generate net income of certain sales levels. Net profit margin is high indicates the ability of companies to make high profits on certain sales levels, whereas a low net profit margin shows the inefficiency of management, see formula (4).

$$\text{NPM} = \frac{\text{Profit After Tax}}{\text{Net Sales}} \quad (4)$$

e) Return on Asset

Return on asset shows the rate of return of the entire business or investment that has been done. This ratio measures the ability of companies throughout the entire funds invested in assets which are used for the operation of the company to generate profits, see formula (5).

$$\text{ROA} = \frac{\text{Earning before interest and tax}}{\text{total assets}} \quad (5)$$

f) Return on Equity

Return on equity measures how much net income resulting from investment in the company's shareholders. A low ratio indicates that management is less efficient in using capital, while a high ratio indicates that the capital obtained from the loan or the most efficient management. To calculate the Return on equity, the formula given by (6).

$$\text{ROE} = \frac{\text{Earning after interest and tax}}{\text{equity}} \quad (6)$$

g) Earning Per Share

Earning Per Share is the amount of income earned in one period for each of the outstanding shares (Zaki Baridwan, 1992), see formula (7).

$$\text{EPS} = \frac{\text{Net Income} - \text{priority stock dividend}}{\text{Average of stockholders}} \quad (7)$$

h) Free Cash Flow

Free cash flow (FCF) is represented by the ratio of free cash flow divided by total assets. The smaller this ratio indicates that the profits from the companies tend to be used to pay dividends, so earnings are used to finance the assets of smaller companies. Free cash flow is calculated by the formula (8).

$$\text{Free cash flow} = \frac{\text{Cash flow operation} - \text{Dividend}}{\text{Total Asset}} \quad (8)$$

We used multiple regression as analysis method with formula as follows on (9).

Description:

| | | |
|-------------------|---|-------------------------|
| Y | = | Dividend Payout Ratio |
| A | = | Constanta |
| $\beta 1 \dots 8$ | = | Regression Coefficient |
| X1 | = | Stock Price |
| X2 | = | Growth |
| X3 | = | Operating Profit Margin |
| X4 | = | Net Profit Margin |
| X5 | = | Return on Assets |
| X6 | = | Return on Equity |
| X7 | = | Earning Per Share |
| X8 | = | Free Cash Flow |
| e | = | Error item |

DISCUSSION

In this section, we present the results with the beginning of descriptive statistics. The results of multiple regression and the discussion for (a) Indonesia banking; and (b) China banking.

Indonesia Banking

Descriptive statistics on dividend policy, stock price, growth, profitability, and free cash flow for Indonesia banking can be seen in following Table 1.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + e \quad (9)$$

Table 1. Descriptive Statistic

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---------------------|----|---------|---------|----------|----------------|
| SP | 72 | -66.22 | 460.00 | 26.0136 | 71.03877 |
| GROWTH | 72 | -85.10 | 537.89 | 31.2651 | 80.47977 |
| OPM | 72 | -2.80 | 50.34 | 18.1958 | 11.18810 |
| NPM | 72 | -.66 | 41.04 | 13.0186 | 8.40887 |
| ROA | 72 | -.11 | 101.00 | 3.2769 | 11.73985 |
| ROE | 72 | .75 | 40.65 | 16.7514 | 10.27015 |
| EPS | 72 | -.82 | 930.10 | 1.2622E2 | 171.90074 |
| FCF | 72 | -.26 | 8.02 | .1165 | .94812 |
| DPR | 72 | .00 | 90.32 | 21.5176 | 26.44365 |
| Valid N (list wise) | 72 | | | | |

Source: Secondary Data was processed, 2012

Based on Table 1 shows that the minimum value of -66.22 with stock price maximum value 460, the average value of 26.0136, and the standard deviation of 71.03877. Growth minimum value of -85.1 with a maximum value of 537.89, the average value of 31.2651, and the standard deviation of 80.47977. OPM minimum value of -2.8 with a maximum value of 50.34, the average value of 18.1958, and the standard deviation of 11.1881. The minimum value for NPM -0.66. 41.04 with a maximum value, average value of 13.0186, and the standard deviation of 8.40887. ROA minimum value of -0.11 with a maximum

value of 101, the average value of 3.2769, and the standard deviation of 11.73985. The minimum value of ROE of 0.75 with a maximum value of 40.65, the average value of 16.7514, and standard deviation of 10.27015. EPS minimum value of -0.82 with a maximum value of 930.1, the average value of 1.2622, and the standard deviation of 171.90074. FCF minimum value of -0.26 with a maximum value of 8.02, the average value of 0.1165, and standard deviation of 0.94812. The minimum value of 0 with the DPR maximum value of 90.32, the average value of 21.5176, and the standard deviation of 26.44365.

Table 2. Result of Autocorrelation Test

| Model Summary ^a | | | | | | | | | | |
|----------------------------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change | |
| 1 | .418 ^a | .175 | .055 | 26.41769 | .175 | 1.459 | 8 | 55 | .194 | 1.843 |

a. Predictors: (Constant), FCF, ROA, GROWTH, SP, ROE, OPM, EPS, NPM

b. Dependent Variable: DPR

Table 3. Result of F-test

| ANOVA ^a | | | | | |
|--------------------|------------|----------------|----|-------------|-------|
| Model | | Sum of Squares | df | Mean Square | F |
| 1 | Regression | 8143.392 | 8 | 1017.924 | 1.459 |
| | Residual | 38384.190 | 55 | 697.894 | |
| | Total | 46527.582 | 63 | | |

a. Predictors: (Constant), FCF, ROA, GROWTH, SP, ROE, OPM, EPS, NPM

b. Dependent Variable: DPR

Table 4. Results of t-test

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -1.753 | 9.419 | | -.186 | .853 |
| | SP | .016 | .068 | .030 | .238 | .813 |
| | GROWTH | -.009 | .041 | -.029 | -.231 | .818 |
| | OPM | .901 | .950 | .337 | .949 | .347 |
| | NPM | -.532 | 1.283 | -.150 | -.415 | .680 |
| | ROA | -.151 | .270 | -.069 | -.561 | .577 |
| | ROE | 1.347 | .623 | .531 | 2.161 | .035 |
| | EPS | -.055 | .036 | -.364 | -1.536 | .130 |
| | FCF | -1.955 | 3.765 | -.072 | -.519 | .606 |

a. Dependent Variable: DPR

Table 5. Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---------------------|----|---------|---------|---------|----------------|
| SP | 72 | .00 | 8.49 | 2.6297 | 1.95393 |
| GROWTH | 72 | -99.06 | 491.51 | 39.9242 | 82.66708 |
| OPM | 72 | -6.26 | 98.18 | 45.5522 | 18.87417 |
| NPM | 72 | .90 | 100.68 | 38.5553 | 16.78079 |
| ROA | 72 | .01 | 2.69 | .9079 | .42563 |
| ROE | 72 | .00 | 48.69 | 13.5168 | 7.51141 |
| EPS | 72 | .00 | 15.26 | 2.4086 | 3.73330 |
| FCF | 72 | -.13 | .15 | .0136 | .04694 |
| DPR | 72 | .00 | 1250.00 | 58.7382 | 146.21596 |
| Valid N (list wise) | 72 | | | | |

Source: Secondary Data was processed, 2012

Based on Table 2 and Table 3, the ANOVA test between stock price (X1), growth (X2), OPM (X3), NPM (X4), ROA (X5), ROE (X6), EPS (X7), and FCF (X8) to DPR Indonesia's and China's banking firms (Y) in the table above, the big unknown for calculating F 1.459 with a significance of 0.194 (significance level $\alpha = 0.05$). This indicates that no significant simultaneous effect on dividend policy the company.

Based on the Table 4, we find out that the only variable that affects on dividend policy is return on equity. Greater return on equity, lower dividend paid. The other independent variables do not affect on it.

China Banking

Descriptive statistics on dividend policy, stock price, growth, profitability, and free cash flow for China banking can be seen in following Table 5.

Based on table 5 shows that the minimum value of 0.00 with stock price maximum value 8.49, the average value of 2.6297, and standard deviation of 1.95393. Growth minimum value of -99.06 with a maximum value of 491.51, the average value of 39.9242, and the standard deviation of 82.66708. OPM minimum value of -6.26 with a maximum value of 98.18, the average value of 45.5522, and the standard deviation of 18.87417. The minimum value for NPM 0.9. 100.68 with a maximum value, average value of 38.5553, and the standard deviation of 16.78079. ROA minimum value of 0.01 with a maximum value of 2.69, the average value of 0.9079, and standard deviation of 0.42563. The minimum value of ROE of 0 with a maximum value of 48.69, the average value of 13.5168, and the standard deviation of 7.51141. EPS minimum value of 0 with a maximum

value of 15.26, the average value of 2.4086, and the standard deviation of 3.7333. FCF minimum value of -0.13 with a maximum value of 0.15, the average value of 0.0136, and a standard deviation of 0.04694. The minimum value of 0 with the DPR maximum value of 1250, the average value of 58.7382, and the standard deviation of 146.21596.

Based on Table 6 and Table 7, the ANOVA test between stock price (X1), growth (X2), OPM (X3), NPM (X4), ROA (X5), ROE (X6), EPS (X7), and FCF (X8) to DPR Indonesia's and China's bank firms (Y) in the table above, the big unknown for calculating F 8.287 with a significance of 0.000 (significance level $\alpha = 0.05$). This indicates that simultaneous or jointly significant effect on dividend policy the company.

Based on the Table 8, we find out that the only variable that affects on dividend policy are stock price, growth and OPM. The other independent variables do not affect on it.

For Indonesia banking, only return on equity influences on dividend policy. It means that in Indonesia banking,

greater return on equity, manager pays lower dividend, because manager choose to use internal source of fund (retained earnings) to finance long term investments than use external sources. For China banking, return on equity does not influence on dividend policy. It means that the whole companies and stockholders in China banking do not care about dividend received. Potential investors who purchase the stocks of China banking prefer to pursue capital gain than dividend payments.

Variable, namely, stock price, growth, and OPM that influence in Indonesia banking because in stock price if Crowded or not the transaction is reflected in the behavior of investors in stock trading. Investors Indonesia is often a short-term deal for those who want capital gains while Chinese investors are very rarely make a deal because they want a short-term dividend companies issued every 3 months or a year. Therefore, dividend data among company pins 2 countries China companies always give dividends while Indonesia is very rare.

Table 6. Result of Autocorrelation Test
Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|-------------------|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change | |
| 1 | .727 ^a | .529 | .465 | 24.97676 | .529 | 8.287 | 8 | 59 | .000 ^a | 2.135 |

a. Predictors: (Constant), FCF, ROE, GROWTH, EPS, SP, OPM, ROA, NPM

b. Dependent Variable: DPR

Table 7. Result of F-test
ANOVA^b

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 41355.614 | 8 | 5169.452 | 8.287 | .000 ^a |
| | Residual | 36806.474 | 59 | 623.839 | | |
| | Total | 78162.088 | 67 | | | |

a. Predictors: (Constant), FCF, ROE, GROWTH, EPS, SP, OPM, ROA, NPM

b. Dependent Variable: DPR

Table 8. Result of t-test

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 58.425 | 9.138 | | 6.393 | .000 |
| SP | 9.362 | 1.876 | .540 | 4.991 | .000 |
| GROWTH | -.137 | .039 | -.334 | -3.493 | .001 |
| OPM | -.927 | .375 | -.496 | -2.473 | .016 |
| NPM | .505 | .486 | .241 | 1.039 | .303 |
| ROA | -18.252 | 16.930 | -.225 | -1.078 | .285 |
| ROE | .373 | .756 | .082 | .493 | .624 |
| EPS | -.057 | .860 | -.006 | -.067 | .947 |
| FCF | -31.570 | 72.121 | -.043 | -.438 | .663 |

a. Dependent Variable: DPR

In growth because Linkages with the provision of dividend growth if the company is experiencing significant growth and is consistent from year to year, the management company will conduct business line development decisions by industry sector expansion. In the expanding needs sufficient funds therefore to attract investors poured funds to help finance the company's expansion fund companies give more dividends than hold its earnings for the next period.

In OPM because operating margin is linked to the net as included in the category of profitability ratios. So if associated with management's decision gives dividend if the company is profitable operation of the fairly high proportion of internal funding allocations placement companies can provide dividends to investors. However, if the surgery is not enough profit to be allocated to the company's internal funding does not provide dividends to investors but are allocated on the balance sheet heading retained earnings for the next accounting period (next year).

Other variables, namely NPM, ROA EPS and free cash flow do not influence on dividend policy for both Indonesia and China banking. It means that the whole companies in Indonesia and China banking do not account those variables to pay dividends to the stockholders.

Stock Price Influence on Dividend Policy

There is a very noticeable difference when we relate the Indonesia Stock Exchange with the stock market in China. First look of distinction market capitalization issuers in Indonesia and China, China's market capitalization is larger and wider than Indonesia. And a second look from the volatility between these two Asian countries. The movement of stock prices in Indonesia is evident from the very high ratio of beta issuers shows that stock price movement in Indonesia is very interesting and crowded by the investors of securities transactions, while Chinese issuers few investors who transact.

Crowded or not the transaction is reflected in the behavior of investors in stock trading. Investors Indonesia is often a short-term deal for those who want capital gains while Chinese investors are very rarely make a deal because they want a short-term dividend companies issued every 3 months or a year. Therefore, dividend data among company pins 2 countries China companies always give dividends while Indonesia is very rare.

Growth Influence on Dividend Policy

China's banking companies listed on the bourses there have averaged very high and during the period 2007 to 2010 which lasted 4 years are always increase asset growth in the banking firm. While

the banking companies in Indonesia has grown the company's assets that are less stable and fluctuated in the intervening four years.

Linkages with the provision of dividend growth if the company is experiencing significant growth and is consistent from year to year, the management company will conduct business line development decisions by industry sector expansion. In the expanding needs sufficient funds therefore to attract investors poured funds to help finance the company's expansion fund companies give more dividends than hold its earnings for the next period.

Profitability Influence on Dividend Policy

The results of the analysis in this study suggests that profitability not affect the company's dividend policy. But the OPM contained a significant influence on dividends in China and the ROE contained a significant influence on dividends in Indonesia.

Operating margin is linked to the net as included in the category of profitability ratios. So if associated with management's decision gives dividend if the company is profitable operation of the fairly high proportion of internal funding allocations placement companies can provide dividends to investors. However, if the surgery is not enough profit to be allocated to the company's internal funding does not provide dividends to investors but are allocated on the balance sheet heading retained earnings for the next accounting period (next year). And this may be due to ROE is a measure of profitability that shows how much net profit to be gained from investment of the company. ROE measures the company's assets measures the ability to earn profits. Profits can be retained and the company may be distributed in the form of dividends. So the increase in ROE companies will increase the rate of return on

investment in the form of dividend income.

Free Cash Flow Influence on Dividend Policy

The results of the analysis in this study suggests that the free cash flow does not affect the company's dividend policy. The results of this study support previous research conducted by Endang and Minaya (2005) who also found that the free cash flow has no effect to dividend payout ratio (DPR). This study contradicts with research conducted by Nurdiana (2007), Yunita (2008) who found that free cash flow has influence on dividend payout ratio (DPR).

This study found that the size of the free cash flow does not affect the high and low dividend payout. The greater free cash flow the company's management will have greater pressure from shareholders to distribute dividends. If the company wants to maximize shareholder wealth by distributing dividends while the condition of free cash flow is not possible, companies can use external financing. Companies tend to give priority to internal funding to pay dividends when demand is less then the funds are used as additional external funding.

CONCLUSION

Based on research results and the results of the analysis have been done in the previous chapter, it can be concluded as follows :

1. In the Indonesia banking companies listed on the Indonesia Stock Exchange during the period 2007-2010, for the percentages simultaneously stock price, growth, OPM, NPM, ROA, ROE, EPS, and free cash flow is no significant effect on the dividend payout ratio. But for partially, only ROE percentage is significant effect.
2. In the China banking companies listed on the Shanghai Stock Exchange

during the period 2007-2010, for the percentages simultaneously stock price, growth, OPM, NPM, ROA, ROE, EPS, and free cash flow is significant effect on the dividend payout ratio. But for partially, only stock price, growth and OPM percentage is significant effect.

Suggestion for this research are The samples should be augmented by including all banks in the Asia not just Indonesia and China, The samples should be added the study period. With the study period is longer, may be obtained by the research results more valid, Independent variables used must be developed. This development needs to be done because many other variables that play a role in influencing the dividend policy, such as variable risk and debt.

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